



Property Tax Advisory

Property Tax Advisories (PTA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. PTAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxing officials and taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the PTA.

NUMBER: PTA 3.0.2000

ISSUE DATE: 08/25/2000

Implementation of the Agricultural Burning Legislation, Engrossed 2nd Substitute House Bill 1987 - Effective March 22, 2000

Engrossed Second Substitute House Bill (E2SHB) 1987, Chapter 40, Laws of 2000, provides a property tax exemption for equipment used as alternatives to the field burning of cereal grains and field and turf grass grown for seed. The effective date of this law is March 22, 2000.

The intent of the law is to provide exemptions and credits not only for alternatives to field burning currently available, but also for alternatives that may become available in the future.

The personal property tax exemption on qualifying machinery and equipment is available only to farmers and others who make it possible to reduce field burning or to reduce the air emissions resulting from such burning. This includes persons involved in the manufacturing or marketing of straw or straw-based products that result in the reduction of field burning or the reduction of air emissions. Crops such as corn and alfalfa do not qualify for the exemption because the fields have not been traditionally burned. In addition, alfalfa is not a cereal grain nor is it grass grown for seed. Cereal grains, field grass grown for seed, and turf grass grown for seed are types of crops that have traditionally been burned. Cereal grains include wheat, oats, barley, and other grains grown in Washington, the fields of which are traditionally burned after harvest to eliminate straw, stubble, or residue.

Cutting, baling, tilling, or storing straw are examples of activities that will reduce field burning, as is seeding directly through the straw or residue.

Equipment used to perform these activities falls within the parameters of the exemption when all other requirements are met. For example, plows or disks used more than 50 percent of the time to break up residue that exists as a result of not burning would qualify.

Responsibility is placed on those taking the exemption to keep suitable records documenting their qualification for the exemption. In addition, such records must be available to the Department of Revenue and the county assessor for verification of eligibility.

The taxpayer is responsible to keep records to document that the equipment is used more than 50 percent of the time on an eligible activity. Machinery and equipment not used on an eligible activity more than

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50 percent of the time during the calendar year shall be listed and assessed for personal property taxation for the year(s) they were ineligible. For example, machinery and equipment purchased July 1, 2000, which is used less than 50 percent of the time in a qualifying activity during calendar year 2000 is subject to assessment January 1, 2001. The types of records to be maintained include, but are not limited to, purchase invoices, depreciation schedules, farming practice logs, the Department of Revenue Retail Sales Tax Exemption Certificate To Reduce Agricultural Burning (form REV 27 0034), and other records kept to verify eligibility for this exemption.

The county assessor may accept the sales tax certificate as proof of eligibility for the exemption. However, other records may need to be reviewed to verify eligibility for this exemption. Machinery and equipment that becomes ineligible loses its property tax exemption for the year(s) it was ineligible as well as for subsequent years of this exemption. *For example, suppose that machinery and equipment purchased in 2000 qualifies for exemption. It is exempt from the retail sales tax and, therefore, the property tax for the 2001 assessment. If it is discovered that the machinery and equipment does not qualify for the exemption during 2001 or future years, it will be subject to the use tax as well as being subject to the personal property assessment for the year 2002 and future assessment years.* In other words, the property loses its exempt status. Once the machinery and equipment has lost its agricultural burning exemption, the exemption **can not** be regained in subsequent years.

If previously exempted machinery and equipment is discovered to have been ineligible for the exemption in prior years, the assessor shall add the value of the machinery and equipment to the assessment roll for the year of discovery and up to three previous years or the life of such exemption if such shall be less. The county treasurer shall collect all taxes which would have been paid had the property not been exempt. Interest on the tax may be added at the same rate and computed in the same way as that upon delinquent property taxes. (RCW 84.56.020)

Denial of the exemption or loss of the exempt status may be appealed to the County Board of Equalization pursuant to RCW 84.40.038 and 84.48.010 (5) and WAC 458-14-046 (6).

Machinery and equipment used to perform traditional farming activities does not qualify for the exemption unless it can be shown that the use of such machinery and equipment in performing these activities is a direct result of not burning the residue or of reducing air emissions. Therefore, combines, tractors, harrows, disks, balers, etc., will not qualify unless the taxpayer can demonstrate that the equipment is specialized for use as a result of not burning fields or that additional use of the equipment is required to accomplish the same. For example, spray equipment would qualify if, as a result of not burning, the field was required to be sprayed five times instead of twice. This meets the requirement that the property be used more than half (50 percent) of the time for qualified activities.

The machinery and equipment must be used for the processing, handling, storing, etc., of straw. For example, balers used on straw and hay qualify for exemption only if they are used more than 50 percent of the time to bale straw.

Likewise, transportation equipment subject to property tax does not qualify for this exemption unless it is used more than 50 percent of the time to transport straw or straw-based products.

Parts used to improve qualifying machinery and equipment are exempt only if acquired on or after March 22, 2000.

The property tax exemption is available for these items:

- Eligible machinery and equipment.
- The installation, alteration, or improvement of the eligible machinery and equipment.
- Tangible personal property that becomes an ingredient or component of eligible machinery and equipment.

To qualify for the exemption, the machinery and equipment must be used more than half (50 percent) of the time for:

- Gathering, densifying, processing, handling, storing, transporting, or incorporating straw or straw-based products that results in a reduction in field burning of cereal grains and field and turf grass grown for seed; or
- Decreasing air emissions resulting from field burning of cereal grains and field and turf grass grown for seed.

Personal property eligible for the retail sales/use tax exemption is exempt from property tax beginning with assessment year 2001 for taxes due in 2002. Items acquired prior to the effective date of this legislation, March 22, 2000, are not eligible for the personal property exemption. Qualified items purchased after March 22, 2000, must be listed with the county assessor by April 30, 2001, and each year thereafter. Proof of eligibility for the exemption must be included with the listing to the county assessor. Proof may be evidenced by providing a copy of the Department of Revenue Retail Sales Tax Exemption Certificate To Reduce Agricultural Burning (form REV 27 0034) and the purchase invoice showing what was purchased and that sales tax was not imposed. Additional qualifying documentation may be required by the county assessor. The exemption will continue through assessment year 2005 for taxes collected in 2006.

Generally, structures eligible for the retail sales/use tax exemption are considered real property, not personal property, and are not exempt from property tax.
